BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAIʻI

In the Matter of the Application of HAWAIIAN ELECTRIC COMPANY, INC. HAWAIʻI ELECTRIC LIGHT COMPANY, INC. and MAUI ELECTRIC COMPANY, LIMITED For Approval to Recover Deferred Costs Associated with the COVID-19 Pandemic Emergency.	DOCKET NO. 2022-0118

HAWAIIAN ELECTRIC COMPANY, INC., HAWAI'I ELECTRIC LIGHT COMPANY, INC. AND MAUI ELECTRIC COMPANY, LIMITED'S REPLY STATEMENT OF POSITION

EXHIBITS 1-2

AND

CERTIFICATE OF SERVICE

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LIST OF COMMONLY USED ACRONYMS/ABBREVIATIONS

• **"Application"**	Application filed on June 9, 2022 in this proceeding
• **"ARA"**	Annual Revenue Adjustment
• **"CA"**	Division of Consumer Advocacy, Department of Commerce and Consumer Affairs of the State of Hawai'i
• **"Companies"**	Hawaiian Electric Company, Inc., Hawaii Electric Light Company, Inc. and Maui Electric Company, Limited
• **"Consumer Advocate"**	Division of Consumer Advocacy, Department of Commerce and Consumer Affairs of the State of Hawai'i
• **"CP"**	Commercial Paper
• **"D&O"**	Decision and Order
• **"Deferred Application"**	Application, filed on April 22, 2022 in Docket No. 2020-0069
• **"Deferred Costs"**	COVID-19-Related Deferred Costs
• **"EAM"**	Enterprise Asset Management
• **"ECRC"**	Energy Cost Recovery Clause
• **"ERP"**	Enterprise Resource Project
• **"Fitch"**	Fitch Ratings, Inc.
• **"Hawaii Electric Light"**	Hawai'i Electric Light Company, Inc.
• **"Hawaiian Electric"**	Hawaiian Electric Company, Inc.
• **"Hawaiian Electric Companies"**	Hawaiian Electric Company, Inc., Hawaii Electric Light Company, Inc. and Maui Electric Company, Limited
• **"HEI"**	Hawaiian Electric Industries, Inc.
• **"July 21, 2021 Reply"**	Reply to the Consumer Advocate's June 4, 2021 Response, filed on July 21, 2021 in Docket No. 2020-0069
• **"Management Audit Final Report"**	Management Audit of the Hawaiian Electric Company (HECO) Final Report dated May 12, 2020, filed on May 13, 2020 in Docket No. 2019-0085
• **"Maui Electric"**	Maui Electric Company, Limited
• **"Moody's"**	Moody's Investors Service
• **"MRP"**	Multi-Year Rate Plan Period
• **"PIMs"**	Performance Incentive Mechanisms
• **"PBR"**	Performance-Based Regulation
• **"RBA"**	Revenue Balancing Account
• **"ROACE"**	Return on Average Common Equity
• **"RORB"**	Return on Rate Base
• **"S&P"**	Standard & Poor's
• **"SCF"**	Syndicated Credit Facility
• **"September 13, 2021 RSOP"**	Reply SOP. filed on September 13, 2021 in Docket No. 2020-0069
• **"SOP"**	Statement of Position

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REPLY STATEMENT OF POSITION

In accordance with Order No. 38544 issued on August 4, 2022, the Hawaiian Electric Companies hereby respectfully submit their reply statement of position in response to the statement of position filed by the Consumer Advocate on November 7, 2022 in the subject proceeding, with respect to the Companies' Application filed on June 9, 2022.

I. EXECUTIVE SUMMARY

In their Application, the Companies sought recovery of COVID-19-related deferred costs, which, at the time, amounted to $27,839,000. The Companies proposed a three-year recovery plan to mitigate customer bill impact. Through a series of efforts, including extended payment plans for which approximately 68% successfully pay on their respective plan, customer communications and progressive disconnection notices, the deferred amount for which the Companies seek recovery (based on year-to-date ("YTD") September 2022 net regulatory asset balance and YTD September 2022 net write-offs) has been reduced almost in half to approximately $14.3 million[1] as of this date. Through various other means, including charitable

[1] *See* Table 2 at 17-18.

giving, the Companies had already significantly reduced the Deferred Costs by over $15 million. The Deferred Costs were incurred in serving the public interest, consistent with Commission direction and support, and the amount and proposed period of recovery is reasonable. The Companies had a reasonable expectation that they would be allowed to recover costs reasonably incurred in response to the COVID-19 pandemic emergency and the Commission's orders. Recovery of Deferred Costs should be approved as proposed.

In its SOP, the Consumer Advocate's primary argument to reduce recovery of Deferred Costs is the Companies' financial performance and "imbalance" between the Companies and customers. However, as the Companies previously explained in their replies in Docket No. 2020-0069, the asserted financial strength of the Companies or HEI is not relevant to the determination of recovery of Deferred Costs and the Consumer Advocate cites absolutely no authority for its argument.

In addition, as discussed herein, contrary to the Consumer Advocate's arguments as to the Companies' financial performance, actual return on rate base and return on common equity for each of the Companies for 2020 and 2021 was actually below authorized levels approved by the Commission.

Moreover, the Companies continue to incur expenses arising from or related to the pandemic that will not be recovered through this Application. Specifically, the Companies have incurred bad debt expenses and late payment fees that have been waived with customer installment plans that arose after the deferral period, namely, March 2020 through December 31, 2021, and have no deferral or recovery mechanism in place to make the Companies whole. In particular, bad debt expense is higher than the amount in rates by approximately $3.3 million YTD September 2022, consolidated (*i.e.*, $2.5 million for Hawaiian Electric, $0.4 million for

Hawaii Electric Light and $0.3 million for Maui Electric). Thus, denying recovery of any amount of the Deferred Costs would be an additional financial detriment on top of post-deferral period expenses.

In its SOP, the Consumer Advocate makes recommendations to, among other things, delay and/or reduce the Companies' recovery of Deferred Costs. However, as discussed herein, these proposed delays and reductions are arbitrary and without basis and the Companies should be allowed to recover the Deferred Costs as requested in the Application.

However, one of the Consumer Advocate's proposed recommendations could be a reasonable compromise of this Application. Specifically, Consumer Advocate Recommendation Number 3 appears to come the closest to the Companies' requested recovery. It would allow the Companies to recover the actual net write-offs of uncollectible customer accounts associated with bills for the period March 2020 through December 2021, less the bad debt expense amounts included in rates for this same period, and is identical to the Companies' proposal to recover net write-offs of uncollectible customer accounts.[2] The Consumer Advocate's proposal would exclude cost recovery for any other expenses such as financing costs, cleaning, software and user licenses, sequestration costs, and advertising,[3] but would also exclude any application of cost savings, thereby narrowing the difference between the Consumer Advocate's proposal and the Companies' proposed recovery. In the interest of compromise and an efficient resolution of this Application, the Companies could accept this Recommendation Number 3 as a reasonable outcome (although it would further reduce the Companies' recovery).

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[2] *See* Consumer Advocate Response to HECO-CA-IR-1b.
[3] *See id.*

II. DISCUSSION

A. Recovery of the Deferred Costs Should be Approved as Proposed

1. The Deferred Costs Were Prudently and Reasonably Incurred

The Companies should be able to recover the Deferred Costs as part of the regulatory compact which assures that the Companies receive a fair opportunity to earn a reasonable return on the capital prudently committed in order to meet its obligation to serve the public.[4]

Here, in response to the COVID-19 pandemic emergency and the Commission's moratorium on service disconnections and prohibition on charging customers interest on past due payments or imposing late payment fees, the Companies prudently incurred costs fulfilling their obligation to serve the public and keep customers connected.

Stated differently, the Deferred Costs were incurred in serving the public interest, consistent with Commission direction and support, and the amount is reasonable. The Companies had a reasonable expectation that they would be allowed to recover costs reasonably incurred in response to the COVID-19 pandemic emergency and the Commission's orders.

a. The Consumer Advocate Does Not Dispute the Overwhelming Majority of Costs

It is critical to note that the Consumer Advocate does not dispute the reasonableness of any of the Deferred Costs, with the sole exception of financing costs related to the Companies' efforts to ensure they maintained adequate liquidity levels to help address the tremendous uncertainty and risk in the face of the COVID-19 pandemic. Therefore, these costs should be deemed reasonable. Moreover, the Companies acted reasonably and prudently in obtaining the financing in question, and these financing costs should be allowed for recovery.

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[4] *See Re Citizens Util. Co. Kauai Elec. Div.*, Docket Nos. 94-0097 & 94-0308 (Consolidated), Decision and Order No. 14859, issued August 7, 1996, at 13.

b. Financing Costs Are Reasonable

In its SOP, the Consumer Advocate states that Hawaiian Electric incurred $582,558 in issuance costs to add an incremental $75 million in committed revolving capacity with a 364-day revolving credit facility to preserve and enhance their liquidity position. The Consumer Advocate contends that the Companies could have maintained $75 million instead of paying those funds as dividends to HEI in 2020 and 2021 and recommended that the deferred cost eligible for cost recovery be reduced by $582,558 in issuance costs for the $75 million revolving credit facility.[5]

The financing costs that the Companies are seeking to recover are reasonable. The additional financing costs (*i.e.*, issuance costs and interest expense) are related to preserving and enhancing the Companies' liquidity position to continue supporting their customers at a time when they were falling behind in payments and accounts receivable balances were growing because of the COVID-19 situation. In March 2020, the COVID-19 pandemic created significant stress on the CP market that impacted all borrowers in the CP market. Investors in the CP market needed to preserve cash as a result of the uncertainty in the market. Thus, investors stopped reinvesting their cash, leaving borrowers (like Hawaiian Electric) with no investment demand for their CP. In mid-March 2020, Hawaiian Electric was quoted overnight CP borrowing rates above its SCF rates.[6]

Since the SCF rates were lower in cost, Hawaiian Electric drew $95 million on its SCF for the first time since 2009. Hawaiian Electric then only had $105 million remaining to draw on its $200 million SCF if needed since there were no other short-term borrowing solutions at that point. Therefore, the Companies' liquidity margin was slim at the beginning of the COVID-19

[5] *See* CA SOP 36-37.

[6] *See* Hawaiian Electric's Letter Request for Expedited Approval of its Second Amended Restated Revolving Syndicated Credit Facility Agreement filed on August 29, 2017, which the Commission approved in Decision and Order No. 35338 issued on March 13, 2018 in Docket No. 2017-0227.

pandemic and the Companies needed to take swift action. At the time, the unemployment rate in Hawai'i in April of 2020 was 37%,[7] and the Companies were unsure if customers would be able to pay their bills, impacting cash flow on a daily basis.

Given the significant and ongoing uncertainty regarding the potential scale and duration of the COVID-19 pandemic, Hawaiian Electric prudently obtained the additional $75 million revolving credit facility in April 2020 to provide additional liquidity. The acquisition of this additional revolving credit did not require prior Commission approval because the credit facility was a short-term financing (less than 365 days). This was a lower cost option than a bank loan at that time, and was taken in order to ensure that there would be adequate cash to pay vendors and employees. Given the circumstances, not obtaining the additional revolving credit would have been imprudent on the part of the Companies.

The Consumer Advocate and the Commission were supportive of the Companies' need to secure additional liquidity during the pandemic. The Companies briefed the Commission in July 2020 of the need to put forth two additional financing requests to continue to support the Companies' access to additional sources of liquidity. On July 31, 2020, the Companies requested expedited approval to issue new taxable debt in the amount of up to $115 million in total for the Companies (up to $60 million for Hawaiian Electric, up to $30 million for Hawai'i Electric Light, and up to $25 million for Maui Electric) in Docket No. 2020-0109. On September 17, 2020, the Consumer Advocate filed its statement of position recommending that the Companies' request for expedited approval be granted subject to certain reporting conditions.[8] The Commission approved this application on September 30, 2020.[9]

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[7] Deferral Application, at 12.

[8] CA SOP, filed on September 17, 2020 in Docket No. 2020-0109, at 5.

[9] *See* D&O No. 37332 issued on September 30, 2020 in Docket 2020-0109, which, among other matters, approved

On November 2, 2020, Hawaiian Electric requested to extend its $200 million SCF for one additional year and exercise the accordion feature of the SCF of $75 million in Docket No. 2020-0178. On December 28, 2020, the Consumer Advocate filed its statement of position recommending that the Commission approve Hawaiian Electric's request for expedited approval.[10] The Commission approved Hawaiian Electric's request for the one-year extension and upsize of the SCF on February 1, 2021.[11] The approval of the extension and upsizing of the SCF allowed the Companies to not have to renew the $75 million revolving credit facility.

These requests were based on the importance of maintaining liquidity due to the impact the global pandemic had on the financial markets and the need to make quick decisions with the best possible information available at that time, and the Consumer Advocate recommended approval and the Commission approved these requests. Obtaining the additional $75 million revolving credit facility was also part of the Companies' efforts to adequately prepare for the potential financial impacts of the pandemic and as explained above was the least costly option for the Company at that time. Although this acquisition of additional revolving credit was not subject to Commission approval, it was nonetheless a prudent decision at that time and therefore recovery of the issuance costs should be allowed. A disallowance of the recovery of these costs would be a disincentive for the Companies to pursue least cost options that do not require prior Commission approval.

Therefore, it is unfair and unreasonable for the Consumer Advocate, based on hindsight more than two years after the fact, to second guess and assert that the Companies made an

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the Companies Letter Request through Expedited Approval Procedure to Issue Unsecured Obligations and Guarantees through December 31, 2021.

[10] CA SOP filed on December 28, 2020 in Docket No. 2020-0178, at 11.

[11] *See* D&O No. 37598 issued on February 1, 2021 in Docket 2020-0178, which, among other matters, approved Hawaiian Electric's Letter Request for Expedited Approval of a One-Year Extension and Flexibility to Exercise a Commitment Increase Option of its Second Amended and Restated Revolving Syndicated Credit Agreement.

unnecessary decision, when the Companies' actions were clearly prudent and necessary to address emergent circumstances during these unprecedented times.

In addition, the Consumer Advocate's assertions that Hawaiian Electric should have maintained $75 million instead of paying those funds as dividends to HEI in 2020 and 2021[12] are equally unreasonable. The $75 million revolving credit facility is an instrument where the funds can be drawn if needed, which is different from not paying out dividends, which would increase the Companies' equity layer. Therefore, the Companies (and thereby HEI) did not cut dividends, which may have had significant ramifications for the market, as investors rely on dividends that have been paid on a continuous basis for over 100 years, and would have impacted investors' perceptions of Hawaiian Electric as a viable investment and potentially could have increased the Companies' cost of equity. Using equity from retained earnings for financing is not costless since eliminating or reducing dividends will affect the price and therefore the cost of equity. The Consumer Advocate's position that the Companies could have retained earnings rather than issue dividends to meet pandemic financing needs would result in the Companies effectively using equity for this financing instead of lower cost debt. This is inconsistent with the Consumer Advocate's previous position in Docket No. 2018-0089 that urged the Commission to consider the adverse impacts of an "equity-rich" capital structure, which could lead to higher rates in the future.[13] In addition, in a more recent common equity financing docket, the Consumer Advocate was "concerned that issuing equity above reasonable levels may result in a capital structure that is not in the consumers' best interest."[14] Thus, retaining the extra $75 million in equity, all other things being equal, would have resulted in Hawaiian Electric's equity ratio to be above the 58%

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[12] *See* CA SOP at 37.
[13] *See* CA SOP at 12 in Docket No. 2018-0089 filed on August 22, 2018.
[14] *See* CA SOP at 12 in Docket No. 2022-0076 filed on August 29, 2022.

target, and the Consumer Advocate's recommendation of reducing the financing cost by $582,558 should be rejected.

c. Identified Cost Savings Are Reasonable

While the Consumer Advocate asserts that the Companies' costs savings identification is incomplete,[15] the Companies contend that their efforts are reasonable. As a matter of background, the pandemic arose at a time when the Companies were already pursuing significant cost containment/savings/efficiency efforts. Specifically, in May 2020 during the early stages of the pandemic, Hawaiian Electric agreed to a settlement in its 2020 test year rate case that resulted in no increase in electric revenues over the amounts established in the 2017 test year rate case. The Company agreed to a no base rate increase, subject to the agreed upon conditions specified in the settlement agreement, to avoid increasing rates to customers already financially distressed as a result of the economic impacts of the COVID-19 pandemic and because the Company anticipated that it would be able to offset a significant portion of the requested rate increase through efficiencies and cost containment enabled by the ERP/EAM system and efficiencies and cost containment initiatives consistent with and in addition to recommendations in the Management Audit Final Report.[16] The Companies are currently flowing savings to customers through the customer dividends element of the ARA equal to $6.6 million associated with commitments the Companies made in response to the Management Audit plus a negative adjustment of 0.22% of adjusted revenue requirements compounded annually, as the Commission ordered in D&O No. 37507 and Order No. 37557 in the PBR proceeding (Docket No. 2018-0088). As such, when the pandemic began, the Companies were already seeking cost

[15] *See* CA SOP at 32-36.
[16] *See* the Parties' Joint Stipulated Settlement Letter, at 1-2, and Exhibit 1, at 3-4, filed on May 27, 2020 in Docket No. 2019-0085 which the Commission approved, subject to the Commission's clarifications regarding the treatment of the Management Audit savings commitment in the PBR Docket in D&O No. 37387.

containment/savings/efficiencies for a forgone general rate increase and to deliver on savings commitments from the ERP/EAM proceeding and the Management Audit. This added a layer of complexity in distinguishing savings for this Application.

Given the Companies' cost savings efforts on multiple fronts, and as a practical approach for this proceeding, identification of cost savings during the COVID-19 deferral period was assessed for material items that could be specifically and exclusively attributed to the pandemic itself. In concept, cost savings not associated with the pandemic would be enjoyed by customers by means of enabling the Companies to deliver on their commitments of a forgone rate case, ERP/EAM and Management Audit savings, and the annual customer dividend prescribed under the new PBR framework. Therefore, the Companies' approach for identifying cost savings provided a pragmatic means for offsetting the deferred COVID-19 related costs while balancing with the fact that cost savings were being pursued for other reasons prior to and in parallel with the pandemic.

In addition, the Companies' approach for identifying cost savings is consistent with Commission guidance. In Order No. 37125 at 5, the Commission approved utilities to establish regulatory assets to record costs resulting from the suspension of disconnections. Order No. 37125 also stated:

> The Commission will also consider in a future proceeding other issues, such as the appropriate period of recovery for the approved amount of regulatory assets, any amount of carrying costs thereon, <u>any savings directly attributable to suspension of disconnects</u>, and other related matters.[17]

By D&O No. 37192, the Commission approved the Companies' request to defer costs associated with the COVID-19 pandemic.[18] D&O No. 37192 further required additional information

[17] Order No. 37125 (non-docketed) issued on May 4, 2020, Para. 2, at 5 (emphasis added).
[18] D&O No. 37192 issued on June 20, 2020, in Docket No. 2020-0069, Para. 1.

including "identifying the record and metrics used to measure and track any cost savings that have resulted from the COVID-19 emergency period.[19]

As discussed above, the Companies focused cost savings identification for this Application on items that could specifically and exclusively be attributed to the pandemic itself. Since the State of Hawaiʻi and the Companies placed restrictive measures on travel to expressly respond to the pandemic, savings associated with travel clearly met this condition and $2,370,000 was offered as an offset to additional costs.[20] This method of cost savings identification is consistent with the Commission's guidance of considering savings directly attributable to suspension of disconnects, discussed in Order No. 37125 and identifying cost savings that have resulted from the COVID-19 emergency as discussed in D&O No. 37192.

The Companies' cost savings identification and focus on material items associated with the pandemic is also consistent with the method to identify cost increases that the Companies are seeking recovery for in this Application. Instead of considering all cost increases and related recovery in an exhaustive list fashion, the Companies focused on items that were material to the moratorium on disconnections and the business continuity and safety impacts from the pandemic. In fact, and as discussed below, the Companies have forgone recovery on several items.

Finally, in addition to the identified travel savings, the Companies offered shareholder-funded customer debt relief and assistance which is described in detail below. These initiatives act in the same spirit as cost savings identification and can be viewed as an alternative means to an end of assisting customers by mitigating the financial impacts of the pandemic. The

[19] *Id* at 10.

[20] The savings were quantified by comparing actual incurred costs for travel against amounts recovered in rates. The calculation of savings was provided in the Companies' response to CA-IR-5, Attachment 1.

shareholder-funded efforts should be considered all together with the Companies' identified cost savings. The Companies reiterate that the identified cost savings are reasonable.

2. The Companies Have Acted to Ease the Bill Impact of the Requested Recovery

As noted in the Application, the Companies took steps to moderate economic impact on customers in general, provided shareholder and charitable funds to reduce customer debt obligations, and established a task force dedicated to educating, coordinating and directing eligible customers to available sources of assistance. These efforts, included:

- Zero Rate Increase Commitment: At the onset, acknowledging the expected onset of the COVID-19 pandemic and broad economic impacts on residents and businesses, Hawaiian Electric cut its rate request to zero in its 2020 test year rate case even as it continued to invest in and maintain the electric system.[21]

- Customer Assistance and Support: The Companies provided assistance and support for customers, including navigating and connecting them with available state and federal sources of financial assistance, provided flexible longer-term payment options, enhanced and increased customer outreach, and implemented new programs such as the Low-to Moderate Income ("LMI") Advisory group while providing essential electric service to customers.[22]

- Shareholder-Funded Customer Debt Relief and Assistance:

    - The Companies issued $2.0 million (i.e., $1.4 million for Hawaiian Electric, $0.3 million for Hawai'i Electric Light, and $0.3 million for Maui Electric) in Kokua Fund one-time bill credits in January 2022 to past-due customers who struggled to pay their electric bill during the COVID-19 pandemic.[23]

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[21] *See* the Parties' Joint Stipulated Settlement Letter, at 1-2, Exhibit 1, at 4, filed on May 27, 2020 in Docket No. 2019-0085 which the Commission approved, subject to the Commission's clarifications regarding the treatment of the Management Audit savings commitment in the PBR Docket in Decision and Order No. 37387.

[22] The Companies provided details of the customer assistance programs in COVID-19 quarterly reports. *See*, for example, the COVID-19 quarterly reports for the fourth quarter of 2021, filed, subject to terms of Protective Order 37543, on February 1, 2022, and on a non-confidential basis on February 14, 2022 in Docket No. 2020-0209 ("Fourth Quarter 2021 Report"), Attachment 2.

[23] *See* Hawaiian Electric, Newsroom, *Hawaiian Electric to issue $2 million in 'Kokua Fund' one-time bill credits to past-due customers*, available at https://www.hawaiianelectric.com/hawaiian-electric-to-issue-2-million-in-kokua-fund-one-time-bill-credits-to-past-due-customers (Release Date: January 26, 2022). *See also* Exhibit A, line 2. This Kokua Fund Bill Credit Program utilized shareholder funds to provide a one-time credit of $90 to past-due balances for approximately 22,000 residential and business customers.

- The Companies were the founding sponsor of Aloha United Way's Hawaii Utility Bill Assistance Program in 2021, pledging $2.0 million in shareholder money from their parent company, HEI, to help households pay electric, water, sewer and gas bills.[24]

In addition, as discussed below, the Companies have made significant adjustments to reduce the requested deferred cost recovery and have also proposed recovery over a three-year period. In particular, as summarized in Table 1, below, the Companies have already provided approximately $15.7 million in Shareholder-Funded Customer Debt Relief and Assistance and Adjustments and Concessions to customers. This is in addition to the proposed accelerated return of net pension tracker cost savings, the proposed accelerated return of ERP benefits, and the proposed three-year recovery period, all of which will help offset the bill impact to customers and are further discussed herein.[25]

Table 1: Shareholder-Funded Customer Debt Relief and Assistance & Adjustments and Concessions (Consolidated)

• Kokua Fund one-time bill credits in January 2022 issued to past-due customers who struggled to pay their electric bill during the COVID-19 pandemic	$2.0 million
• The Companies were the founding sponsor of Aloha United Way's Hawaii Utility Bill Assistance Program in 2021, pledging $2.0 million in shareholder money from their parent company, HEI, to help households pay for their electric, water, sewer and gas bills	$2.0 million
• Travel-related cost savings which offset the recovery of COVID-19 related costs	$2.4 million
• The Companies' recovery request could but does not include recovery of:	
o Non-collection of late payment fees	$2.2 million

[24] *See* Hawaiian Electric, Newsroom, *Hawaiian Electric and Aloha United Way launch Hawaii Utility Bill Assistance Program*, available at https://www.hawaiianelectric.com/hawaiian-electric-and-aloha-united-way-launch-hawaii-utility-bill-assistance-program (Release Date: February 4, 2021). The Hawaii Utility Bill Assistance Program provided assistance to over 2,100 customers across the Hawaiian Electric Companies for a total of $1.2 million in additional assistance.

[25] Exhibit 1, attached hereto, addresses the Consumer Advocate's comments on the bill impact for the second and third year of the proposed cost recovery period.

o Carrying costs of the unamortized regulatory asset balance of the COVID-19 deferred costs up to the proposed three-year recovery period for the March 2020 through May 2023 period	$5.1 million[26]
o The return on the unamortized regulatory asset balance of the COVID-19 deferred costs over the proposed three-year recovery period	$2.0 million[27]
Total	$15.7 million

Accordingly, although the Consumer Advocate argues in its recommendations (discussed below) that the requested recovery should be reduced because of ongoing impacts of COVID-19 on Hawai'i's economy, the Commission must consider not only that the Companies have a reasonable expectation that they will be allowed to recover costs reasonably incurred in response to the COVID-19 pandemic emergency and the Commission's orders, but also that the Companies, throughout the pandemic and in connection with this Application, have already taken significant action and made significant concessions as part of this Application in order to ease the bill impact of the requested recovery.[28]

a. The Companies Have Made Significant Concessions to Reduce the Net Amount of Their Deferred Cost Recovery Request

The Companies have also made significant adjustments and concessions to reduce the net amount of their deferred cost recovery request. These include:

- The Companies have offset the recovery of COVID-19-related costs with travel-related cost savings of $2.4 million (i.e., $1.9 million for Hawaiian Electric, $0.3 million for Hawai'i Electric Light, and $0.2 million for Maui Electric).[29]

[26] The recalculated carrying costs of the unamortized regulatory asset balance based on the September 30, 2022 regulatory asset balance of $15,416,000 (Companies' COVID-19 Quarterly Reports, Attachment 1, filed on November 1, 2022 in Docket No. 2020-0209 line 16; and CA-101 line 16) is $3.6 million.

[27] The recalculated return on the unamortized regulatory asset balance based on the September 30, 2022 regulatory asset balance of $15,416,000 (Companies' COVID-19 Quarterly Reports, Attachment 1, filed on November 1, 2022 in Docket No. 2020-0209 line 16; and CA-101 line 16) is $1.4 million.

[28] The Companies disagree with the Consumer Advocate's implication that further concessions are required to resolve or settle this matter. *See e.g.,* CA SOP at Sections II.H. and III. Granting the relief as requested in the Application will reflect the significant assistance and concessions the Companies have already made in this docket and in their response to the COVID-19 pandemic.

[29] *See* Application, Exhibit A, line 12, Exhibit B, column (g), and Exhibit D, line 3.

- The Companies have foregone recovery of the following:
  - Non-collection of late payment fees of \$2.2 million on a consolidated basis (*i.e.*, \$1.2 million for Hawaiian Electric, \$0.6 million for Hawai'i Electric Light, and \$0.3 million for Maui Electric);[30]
  - Carrying costs of the unamortized regulatory asset balance of the COVID-19 deferred costs up to the proposed three-year recovery period. The estimated amount for the period from March 2020 through May 2023 would be approximately \$5.1 million, excluding revenue taxes, on a consolidated basis (*i.e.*, \$3.8 million for Hawaiian Electric, \$0.6 million for Hawai'i Electric Light, and \$0.7 million for Maui Electric); and
  - The return on the unamortized regulatory asset balance of the COVID19 deferred costs over the proposed three-year recovery period. The estimated amount for the initial recovery period from June 2023 through May 2024 would be approximately \$2.0 million, excluding revenue taxes, on a consolidated basis (*i.e.*, \$1.5 million for Hawaiian Electric, \$0.2 million for Hawai'i Electric Light, and \$0.3 million for Maui Electric).[31]

Although difficult to fully quantify, it is evident that the above efforts resulted in assisting customers and/or reducing the recovery amount by not less than \$15.7 million, including the Shareholder-Funded Customer Debt Relief and Assistance.

b. The Proposed Three-Year Recovery Period Is Reasonable

In order to manage the cost recovery impact on customers, the Companies have proposed recovery of the deferred balances over a three-year period. As noted in the Application, for the initial recovery period from June 2023 through May 2024, the Companies are requesting recovery based on actual costs incurred, net of cost savings realized, during the deferral period from March 2020 through December 2021, and are requesting to include such costs in the 2023

[30] *See* Application, Section VIII.B.4. *See also* Fourth Quarter 2021 Reports, Attachment 1 at 10. Total may not add exactly due to rounding.

[31] *See* Application, Section VIII.B.5 for further discussion. The estimated amounts foregone for both the carrying costs of and the return on the unamortized COVID-19 deferred cost regulatory asset are calculated by taking the average of the beginning and ending balances of the COVID-19 regulatory asset, net of the accumulated deferred income taxes, for the respective years. The net amount is multiplied by the authorized rate of return on average rate base for Hawaiian Electric, Hawai'i Electric Light, and Maui Electric of 7.37%, 7.52%, and 7.43%, respectively, on a pretax basis.

spring revenue report. Recovery for each subsequent year will likewise be based on actual costs (*i.e.*, actual levels of resulting bad debt).

This proposed recovery period must be considered in conjunction with the actions the Companies have taken to voluntarily reduce amounts requested by forgoing amounts they otherwise would have been entitled to, actions the Companies have taken to assist the public, as discussed herein, as well as the Companies' right to recover deferred costs prudently and reasonably incurred. Accordingly, the proposed three year recovery period is reasonable and should be approved.

c. Net Pension Tracker Cost Savings Will Offset Bill Impact of the Deferred Costs

The Consumer Advocate states the following:

> The Companies contend that although customers will see a bill increase from the recovery of deferred COVID-19 expense, their proposed refund from the Pension Tracking Mechanism in Docket No. 2022-0119 will offset the costs for the Hawaiian Electric customers in Year One of the recovery period as shown on page 6 of the Application. However, in Year One, the Companies do not expect that there will be an offset for the Hawaii Electric Light and Maui Electric customers. It is important to note that the Companies state that the bill impact for Years Two and Three of the proposed recovery period have not been calculated since the Companies cannot forecast future customer payments which will reduce the bad debt expense...[32]

In their Application, the Companies stated that they have also taken other unrelated cost reduction steps, specifically to flow through a portion of the expected net pension cost savings as a refund to customers during the current MRP, that, if approved, are expected to completely offset and exceed the bill impact from the COVID recovery request over time. Table 2[33] below compares estimated recovery of COVID-related costs against potential refunds from the Pension

[32] CA SOP at 17.
[33] As explained throughout the Companies' filings, these numbers are estimates based on what the Companies know today and actual results could vary.

Tracking Mechanism and the ERP benefits. Table 2 shows that over the course of the three-year recovery period, the estimated accelerated refund of the regulatory liability from the pension tracking mechanism and the ERP benefits would more than offset the estimated recovery of COVID-related costs.

Table 2: Recovery of COVID-19 Related Costs, Net of Pension Tracking Mechanism Net Refund and ERP Benefits Refund ($ in thousands)[34]

	Hawaiian Electric	Hawai'i Electric Light	Maui Electric	Consolidated
Year 1 (June 2023 – May 2024):				
Recovery of COVID-19 related costs[35]	$2,479	$128	$574	$3,181
Pension Tracking Mechanism Net Refund[36]	[redacted]			
ERP Benefits Refund[37]	-	($1,156)	($1,749)	($2,905)
Net recovery from/(return to) customers	[redacted]			
Year 2 (June 2024 – May 2025):				
Recovery of COVID-19 related costs	$4,763	$1,237	$815	$6,815
Pension Tracking Mechanism Net Refund	[redacted]			
ERP Benefits Refund	-	($1,190)	($1,788)	($2,978)
Net recovery from/(return to) customers	[redacted]			
Year 3 (June 2025 – May 2026):				
Recovery of COVID-19 related costs	$2,656	$801	$883	$4,340
Pension Tracking Mechanism Net Refund	[redacted]			
ERP Benefits Refund	-	($1,224)	($1,821)	($3,045)
Net recovery from/(return to) customers	[redacted]			

[34] Portions of Table 2 contain confidential information and are being provided subject to the terms of Protective Order No. 38486 issued on July 11, 2022 in this proceeding. Refer to Exhibit 2 to this Reply for the basis of confidentiality and the cognizable harm to the Companies from any misuse or unpermitted disclosure of the information.

[35] *See* the Companies' response to PUC-HECO-IR-03, Attachment 1, at 5, filed on November 17, 2022, for the recovery of COVID-19 related costs, excluding revenue taxes, for Years 1, 2, and 3. As stated in the response to PUC-HECO-IR-03, these amounts are estimated using best available information at the filing of the response. *See also* Exhibit 1 to this reply for the second and third years of the proposed cost recovery period.

[36] *See* the Companies' Application for Approval to Modify Pension Tracking Mechanisms, filed on June 9, 2022, Exhibit 1, at 1-4 (baseline scenario) and the Companies' response to CA-IR-1, Attachment 1, at 1-4 (baseline), filed on August 26, 2022, in Docket No. 2022-0119, for the pension tracking mechanism net refund, excluding revenue taxes, for Years 1, 2, and 3.

[37] *See* Hawaiian Electric Companies' Response to Order Nos. 36259 and 36285 filed on June 10, 2019 in Docket No. 2014-0170, Attachment 1 excel files provided in electronic format only. Amounts excluded revenue taxes.

	Hawaiian Electric	Hawai'i Electric Light	Maui Electric	Consolidated
Total for Years 1 to 3:				
Recovery of COVID-19 related costs	$9,898	$2,166	$2,272	$14,336
Pension Tracking Mechanism Net Refund	[redacted]			
Return of ERP Benefits	-	($3,570)	($5,358)	($8,928)
Net recovery from/(return to) customers	[redacted]			

Although the Companies do not expect that there will be a pension tracker regulatory liability offset in the first year of the COVID recovery period, the Companies' application in the tracker modification docket did state that in the baseline scenario, they estimated that Hawai'i Electric Light customers would see a refund of the pension tracker liability balance starting in 2025 and Maui Electric customers in 2024.[38] Exhibit 1 of the tracker modification application shows estimates of the accelerated return to customers for each of the Companies. In addition, the flow through of ERP savings to Hawai'i Electric Light and Maui Electric customers, as explained in Section II.A.2.d. of this reply, will also help mitigate the impact of the COVID cost recovery during the three-year recovery period.

The Consumer Advocate's SOP then notes that since no decision has been made in the pension tracking mechanism modification proceeding (Docket No. 2022-0119) the argument that the possible offset from accelerated return of the regulatory liability arising from the Pension Tracking Mechanism should not justify an increase in this proceeding.[39] First, the Companies have not contended that potential pension cost savings in and of themselves justify recovery of the Deferred Costs here. Instead, the Companies suggested the potential pension costs savings that could be returned early to customers are a relevant matter to consider with respect to an overall bill impact for the two applications. And, in fact, as discussed below, the potential

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[38] Application, Docket No. 2022-0119, at 17.
[39] *See* CA SOP at 18.

pension cost savings would produce a net bill reduction over time. Indeed, in Docket No. 2022-0119, the Consumer Advocate recommended that the Companies should accelerate 100% of the flow through of the regulatory liability to customers, instead of 50% as the Companies proposed. In that case the offset to the COVID cost recovery would be twice as much as the Companies' proposal. Furthermore, the Companies filed their reply statement of position on November 4, 2022 in the tracker modification proceeding and there are no other procedural steps left except for the Commission to render a decision and order. Thus, the decision making in that docket will likely be concurrent with, if not precede, the decision making for this proceeding. Therefore, it is possible for the decision in this proceeding to consider how much of the pension tracker liability the Commission decides should be flowed through to customers on an accelerated basis in the tracker modification docket or at least consider the decisions in both dockets concurrently.

At the end of this section of its SOP, the Consumer Advocate attempts to show that the recovery amounts in years two and three of the COVID cost recovery period would be greater than in the initial year and states that this will only add to already high customer bills and compound the amounts owed by those customers struggling with repayment plans and thus urges the Commission to deny the Companies' request.[40] As explained above and elsewhere in this reply, the Companies are mitigating the impact of the COVID cost recovery through pension tracker and ERP offsets and are refraining from seeking recovery of all COVID-related costs. In addition, the Companies will propose the COVID cost recovery adjustment in the Spring Revenue Report for each of the three years of the COVID cost recovery period. In each of those years, the net impact of the recovery (*i.e.*, the recovery of the COVID costs less offsets) will still be subject to Commission review and approval and if the impacts are significantly higher than

[40] *See* CA SOP 18-19.

expected in a given year, there would be the opportunity for the Companies to propose adjustments to the parameters of the recovery to mitigate the impact to customers in that year.

d. Acceleration of the ERP Benefits to Hawai'i Electric Light and Maui Electric Customers Will Offset Bill Impact of the Deferred Costs

In addition to the proposed net pension tracker cost savings, the Companies propose to take additional unrelated cost reduction steps if the Commission approves recovery of the Deferred Costs. In particular, in order to mitigate the impact of the Companies' request for recovery of the COVID-19 related costs on customers, assuming recovery of Deferred Costs, the Companies propose to accelerate flow-through of the ERP accrued benefit savings currently tracked in the regulatory liability accounts to Hawai'i Electric Light and Maui Electric customers, which would otherwise be returned in a future rate-setting proceeding.[41, 42]

The ERP benefit savings can be returned to Hawai'i Electric Light and Maui Electric customers by including them as part of the subtractive customer dividend in the ARA. In fact, Hawai'i Electric Light and Maui Electric returned a portion of the ERP/EAM benefits of $1.6 million and $2.3 million, respectively, to their customers as part of their 2021 ARA, as approved by the Commission in Order No. 37557 issued on January 15, 2021 in Docket No. 2018-0088 (PBR proceeding).[43]

[41] In the Consumer Advocate and Hawaiian Electric Companies' Supporting Documentation for Proposed ERP Benefits Pass-Through Methodology filed as Exhibit 1 to the Companies' Motion for Partial Reconsideration of Order No. 35954 on December 31, 2018 in Docket No. 2014-0170, at 12, a copy of which was attached to Order No. 36166, the Parties stated the following:

> Between rate cases, O&M benefits that reduce base rates will be placed into a regulatory liability account and accumulated until the effective date of interim rates that reflect test year O&M savings benefits. The balance of the regulatory liability account will be returned to customers via amortization credits to O&M expense in the next rate case.

[42] Hawaiian Electric's ERP benefits to customers have been separately addressed as part of the Hawaiian Electric 2020 test year rate case. See the Parties' Joint Stipulated Settlement Letter, filed in Docket No. 2019-0085, Exhibit 1, at 4 and 15-16.

[43] *See* Order No. 37557 at 2, 14-16.

Specifically, the Companies propose to return to Hawai'i Electric Light and Maui Electric customers the balance of ERP benefits, including revenue taxes, of $1.3 million and $1.9 million, respectively, in the regulatory liability accounts as of December 31, 2021 through the subtractive customer dividend in the 2023 ARA that will be included in the 2023 spring revenue report. See Table 2 above for the ERP benefits refund amounts that will offset the recovery of the COVID-19 related costs during the three-year recovery period for each Company.

Likewise, in the 2024 spring revenue report, Hawai'i Electric Light and Maui Electric will return to their customers the balance of ERP benefits in the regulatory liability accounts as of December 31, 2022 through the subtractive customer dividend in the 2024 ARA, which would offset the recovery of COVID-19 net write-offs to be incurred for the period January through December 2022.

In the 2025 spring revenue report, Hawai'i Electric Light and Maui Electric will return to their customers the balance of ERP benefits in the regulatory liability accounts as of December 31, 2023 through the subtractive customer dividend in the 2025 ARA which would offset the recovery of COVID-19 net write-offs to be incurred for the period January 2023 through March 2024.

3. The Current High Rate Environment Is Beyond Companies' Control

The Consumer Advocate argues that effective rates for electricity this year are higher than last year. While it is true that effective rates and typical residential bills are higher than last year, that is not a basis to reduce recovery of the Deferred Costs.

The increase in the effective rates of electricity and increase in typical residential bills are largely due to increases in the ECRC due to higher fuel costs and, on O'ahu, the retirement of AES. A year over year comparison for a 500 kWh typical residential customer on O'ahu, Hawai'i Island, and Maui, and a 400 kWh typical residential customer on Lana'i and Moloka'i for November 2021 as compared to November 2022 is shown in Table 3, below. There are increases in the typical residential bill between 17% and 36%, depending on the island. Almost all of that increase can be attributed to the increase in the ECRC from November 2021 to November 2022.

Table 3: Comparison of Typical Residential Bill by Bill Component, November 2021 to November 2022.

				Typical Residential Bill Impact[44]		Change in Typical Bill	% of bill change
		Nov-21	Nov-22	Nov-21	Nov-22		
Oahu	Customer Charge, $/bill	$11.50	$11.50	$11.50	$11.50	$0.00	0%
	Non-Fuel Energy, first 350 kWh, ¢/kWh	10.6812	10.6812	$37.38	$37.38	$0.00	0%
	Non-Fuel Energy, 351 to 1200 kWh, ¢/kWh	11.8347	11.8347	$17.75	$17.75	$0.00	0%
	ECRC, ¢/kWh	**15.767**	**28.468**	**$78.84**	**$142.34**	**$63.50**	**105%**
	PPAC, ¢/kWh	2.2269	0.8391	$11.13	$4.20	-$6.93	-11%
	RBA, ¢/kWh	1.1469	1.9085	$5.73	$9.54	$3.81	6%
	REIP, ¢/kWh	0.0158	0.0168	$0.08	$0.08	$0.00	0%
	PBF, ¢/kWh	0.6478	0.6488	$3.24	$3.24	$0.00	0%
	DSM, ¢/kWh	-0.037	-0.0375	-$0.19	-$0.19	$0.00	0%
	DRAC, ¢/kWh	-0.0094	-0.0075	-$0.05	-$0.04	$0.01	0%
	GIF, $/bill	$1.19	$1.18	$1.19	$1.18	-$0.01	0%
	Total Bill			**$166.60**	**$226.98**	**$60.38**	**100%**
	Bill Change, % of Nov 2021 bill				**36%**		
Hawaii Island	Customer Charge, $/bill	$11.50	$11.50	$11.50	$11.50	$0.00	0%
	Non-Fuel Energy, first 300 kWh, ¢/kWh	13.4059	13.4059	$40.22	$40.22	$0.00	0%
	Non-Fuel Energy, 301 to 1000 kWh, ¢/kWh	16.7577	16.7577	$33.52	$33.52	$0.00	0%
	ECRC, ¢/kWh	**19.47**	**24.879**	**$97.35**	**$124.40**	**$27.05**	**78%**
	PPAC, ¢/kWh	2.0761	2.218	$10.38	$11.09	$0.71	2%
	RBA, ¢/kWh	-0.0299	1.3708	-$0.15	$6.85	$7.00	20%
	PBF, ¢/kWh	0.6478	0.6488	$3.24	$3.24	$0.00	0%
	DSM, ¢/kWh	-0.0051	-0.0017	-$0.03	-$0.01	$0.02	0%
	GIF, $/bill	$1.19	$1.18	$1.19	$1.18	-$0.01	0%

[44] Typical residential bill reflects a 500 kWh residential customer on Oahu, Hawaii Island, and Maui, and a 400 kWh customer on Lanai and Molokai.

				Typical Residential Bill Impact[44]		Change in Typical Bill	% of bill change
		Nov-21	Nov-22	Nov-21	Nov-22		
	Total			**$197.22**	**$231.99**	**$34.77**	**100%**
	Bill Change, % of November 2021 bill				**18%**		
Maui	Customer Charge, $/bill	$11.50	$11.50	$11.50	$11.50	$0.00	0%
	Non-Fuel Energy, first 350 kWh, ¢/kWh	12.124	12.124	$42.43	$42.43	$0.00	0%
	Non-Fuel Energy, 351 to 1200 kWh, ¢/kWh	14.384	14.384	$21.58	$21.58	$0.00	0%
	ECRC, ¢/kWh	**19.019**	**24.488**	**$95.10**	**$122.44**	**$27.34**	**91%**
	PPAC, ¢/kWh	-0.0107	-0.0177	-$0.05	-$0.09	-$0.04	0%
	RBA, ¢/kWh	1.0242	1.6175	$5.12	$8.09	$2.97	10%
	PBF, ¢/kWh	0.6478	0.6488	$3.24	$3.24	$0.00	0%
	DSM, ¢/kWh	-0.0084	-0.0584	-$0.04	-$0.29	-$0.25	-1%
	GIF, $/bill	$1.19	$1.18	$1.19	$1.18	-$0.01	0%
	Total			**$180.07**	**$210.08**	**$30.01**	**100%**
	Bill Change, % of November 2021 bill				**17%**		
Lanai	Customer Charge, $/bill	$11.50	$11.50	$11.50	$11.50	$0.00	0%
	Non-Fuel Energy, first 250 kWh, ¢/kWh	12.3123	12.3123	$30.78	$30.78	$0.00	0%
	Non-Fuel Energy, 251 to 750 kWh, ¢/kWh	14.8123	14.8123	$22.22	$22.22	$0.00	0%
	ECRC, ¢/kWh	**29.191**	**37.96**	**$116.76**	**$151.84**	**$35.08**	**94%**
	RBA, ¢/kWh	1.0242	1.6175	$4.10	$6.47	$2.37	6%
	PBF, ¢/kWh	0.6478	0.6488	$2.59	$2.60	$0.01	0%
	GIF, $/bill	1.19	1.18	$1.19	$1.18	-$0.01	0%
	Total			**$189.14**	**$226.59**	**$37.45**	**100%**
	Bill Change, % of November 2021 bill				**20%**		
Molokai	Customer Charge, $/bill	$11.50	$11.50	$11.50	$11.50	$0.00	0%
	Non-Fuel Energy, first 250 kWh, ¢/kWh	14.0459	14.0459	$35.11	$35.11	$0.00	0%
	Non-Fuel Energy, 251 to 750 kWh, ¢/kWh	16.6959	16.6959	$25.04	$25.04	$0.00	0%
	ECRC, ¢/kWh	**20.133**	**31.953**	**$80.53**	**$127.81**	**$47.28**	**95%**
	RBA, ¢/kWh	1.0242	1.6175	$4.10	$6.47	$2.37	5%
	PBF, ¢/kWh	0.6478	0.6488	$2.59	$2.60	$0.01	0%
	GIF, $/bill	$1.19	$1.18	$1.19	$1.18	-$0.01	0%
	Total			**$160.06**	**$209.71**	**$49.65**	**100%**

					Typical Residential Bill Impact[44]			Change in Typical Bill	% of bill change
		Nov-21	Nov-22		Nov-21	Nov-22			
	Bill Change, % of November 2021 bill					**31%**			

The Companies pass through their eligible fuel and purchased energy costs to customers in the ECRC and do not make any profit on fuel or purchased energy costs. Put another way, higher ECRC revenues due to higher fuel prices do not result in higher profitability to the Companies.

The eligibility criteria for Z-Factor costs listed in the ARA Provision does not include consideration of the overall bill environment.[45] There is no support or authority to deny recovery of the prudently incurred deferred costs simply due to the current high bill environment. The current high bill environment is driven almost entirely by increases in the ECRC due to increases in the price of oil, and much like the pandemic, world oil prices are outside of the Companies' control.

The Companies recognize that the current high bill environment could be considered when deciding *the manner in which* these Deferred Costs could be recovered from customers. That is why the Companies have proposed their three-year recovery period, which they offered in good faith to mitigate the magnitude of bill impacts that recovery of these Deferred Costs will have on customers.

4. Credit Ratings

In its SOP, the Consumer Advocate states that in the midst of the COVID pandemic, the credit rating agencies increased the Companies' credit ratings and the Companies' financial

[45] *See*, for example, Hawaiian Electric ARA Provision Tariff Sheet No. 104E.

strength is further demonstrated by the actions of the credit rating agencies.[46] However, Hawaiian Electric's credit rating upgrade by S&P and Moody's on March 17, 2021 and April 21, 2021, respectively, was based on the rating agencies' view that the regulatory environment is improving with the Commission's approval of the PBR in December 2020.

As presented in the Companies' response to CA-IR-9 filed on September 7, 2022, in this proceeding:

> In Fitch's rating report issued on July 28, 2022,[47] one of the key assumptions in affirming Hawaiian Electric's BBB+, positive outlook, was the **"[r]ecovery of pandemic-related costs starting in 2023."**
>
> In S&P's rating report issued on May 24, 2021,[48] S&P assumed **"[n]o material persistent effects from the COVID-19 pandemic" and "[a] stable regulatory regime in Hawaii with no adverse regulatory decisions."** S&P also states **"[w]e could lower our rating** on HECO over the next 12-24 months if its financial measures deteriorate, with FFO to debt consistently below 17%, there **are adverse regulatory outcomes**, or there are any changes to the insulation provisions."
>
> In Moody's rating report issued on April 28, 2021,[49] Moody's stated "[w]e expect HECO to be relatively resilient to recessionary pressures related to the coronavirus because of its revenue decoupling mechanism and approved deferral of coronavirus-related costs." Moody's also stated **"[w]e could take negative rating action on HECO if its regulatory relationship deteriorates** or the utility experiences material reliability issues or setbacks with its renewable energy transition. We could also take negative rating action should HECO's CFO pre-WC to debt ratio falls below 16% on a sustained basis." [(Emphasis added).]

Thus, based on the comments from the rating agencies, if the Commission denies the Companies' request for recovery of the COVID-19-related costs, net of cost savings realized, in this docket, it is clear that there will be negative implications for the Companies' credit rating.

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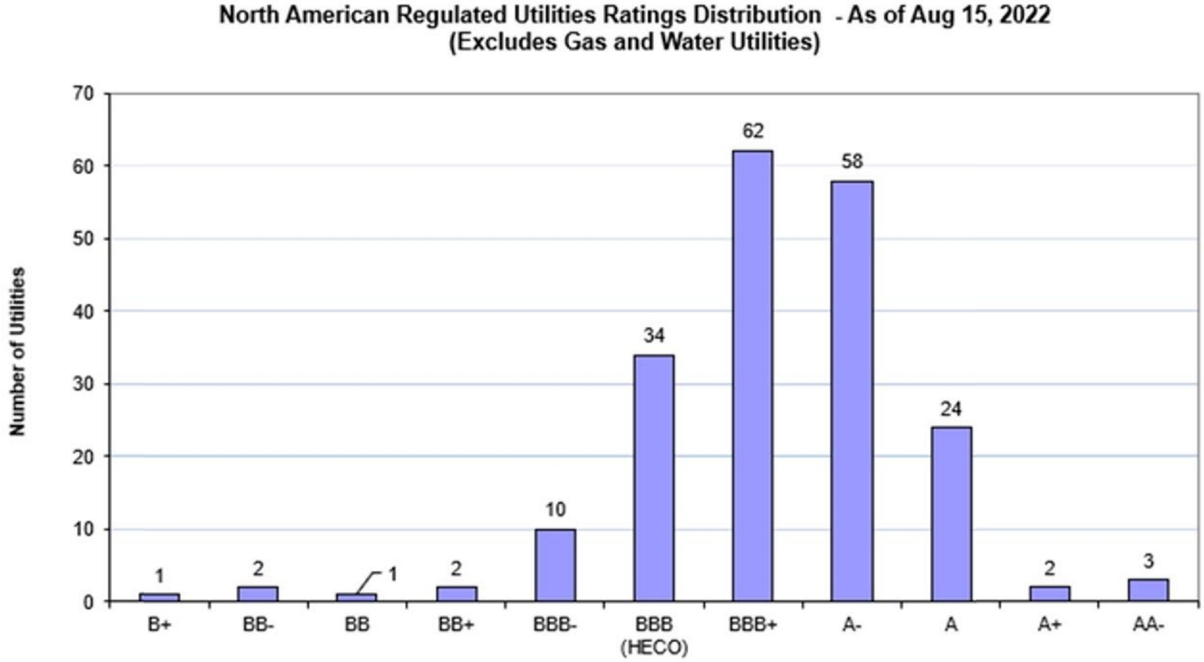
[46] *See* CA SOP at 21.

[47] Fitch, Hawaiian Electric Company, Inc., dated July 28, 2022, at 4, which was provided as CA-IR-9 Attachment 1.

[48] S&P Global Ratings, *RatingsDirect, Hawaiian Electric Co. Inc.*, dated May 24, 2021, at 4, which was provided as CA-IR-9 Attachment 2.

[49] Moody's Investors Service, *Hawaiian Electric Company, Inc.*, dated April 28, 2021, at 1-2, which was provided as CA-IR-9 Attachment 3. Moody's refers to funds from operation ("FFO") to debt, or FFO/Debt, as cash from operations pre-working capital to debt ("CFO pre-WC to debt").

In addition, Hawaiian Electric's S&P credit rating of 'BBB' is still in the lower 25th percentile when compared to other North American Regulated Utilities. See illustration below.[50]



5. The Companies' Financial Performance Is Not Relevant to the Commission's Determination

The Consumer Advocate continues to argue that the Companies' financial performance as well as an alleged financial imbalance between the Companies and their customers justifies a reduction of recovery of Deferred Costs. However, as discussed in the July 21, 2021 Reply and the September 13, 2021 RSOP, the asserted financial strength of the Companies or HEI is not relevant to the determination of recovery of Deferred Costs and the Consumer Advocate cites no authority for this proposition.

To the contrary, pursuant to D&O No. 37994, at issue in this proceeding is the reasonableness of any requested cost recovery and the time over which any potential recovery

[50] Data obtained from S&P Global Ratings' Issuer Ranking: North America Electric, Gas, And Water Regulated Utilities, Strongest to Weakest dated August 15, 2022.

might be received,[51] and, as explained above, the Companies have shown that the Deferred Costs were prudently and reasonably incurred.

There is thus no basis to have the relative strength of financial performance determine the amount of recovery of Deferred Costs (presumably, the Consumer Advocate would condition full recovery only to the extent the Companies were performing poorly). The Commission must reject the Consumer Advocate's contention of financial strength, performance, or imbalance as a justification to deny or reduce recovery of deferred costs.

In any event, the Companies address the Consumer Advocate's contentions below.

a. The Decoupling Mechanism Does Not Maintain Hawaiian Electric Companies' Revenue Levels

As discussed in the July 21, 2021 Reply and the September 13, 2021 RSOP, the decoupling mechanism does not address the impact of COVID-19 related costs the Companies have deferred – in other words, the decoupling mechanism does not provide for an automatic adjustment for bad debt and other COVID related expenses, including bad debt expense, non-collection of late payment fees, financing costs, sequestration costs, increased sanitization, decontamination and personal protective equipment and other costs that are higher than the levels that were included in the revenue requirements approved for establishing electric rates. Since COVID related costs were not included in the revenue requirements approved by the Commission in the last issued Decision and Order in the respective Company's most recent test year general rate case, it is excluded from target revenue used in the determination of the monthly RBA adjustment. While any revenue shortfalls such as lower electricity demand from the COVID-19 pandemic are addressed in the revenue balancing account of the decoupling mechanism, the Consumer Advocate's argument that customers are currently making up for the Companies' lower

[51] D&O No. 37994 issued on October 10, 2021 in Docket No. 2020-0069 at 17-18.

revenues caused by the COVID-19 pandemic through their monthly customer bills is erroneous as target revenue does not include COVID-19 related expenses as described above.

b. HEI Dividends

As discussed in the July 21, 2021 Reply and the September 13, 2021 RSOP, HEI's dividend declaration is based on HEI's results and HEI's Board of Directors decision making and would reflect the result of other HEI subsidiaries, and not only or even necessarily the results of the Hawaiian Electric Companies. HEI's dividend declaration should not have an effect on whether the Companies' request should be granted. HEI has distributed dividends on an uninterrupted basis since 1901.[52] See also discussion in Section II.A.1.b., above.

c. Rates of Return on Rate Base Is Irrelevant

The Consumer Advocate asserts that with the exception of Hawai'i Electric Light, the Companies' rate of return on rate base shows that they have been able to prosper during the COVID-19 pandemic.[53] As discussed in the July 21, 2021 Reply and the September 13, 2021 RSOP,[54] the Companies' financial strength, including net income and rates of return are not relevant to the recovery of costs.

As discussed in the July 21, 2021 Reply, actual return on rate base and return on common equity for each of the Companies for 2020 was actually below authorized levels approved by the Commission.[55] This negative gap between actual and authorized returns continues to persist for 2021, as noted below:

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[52] *See* HEI News Release posted on November 3, 2022 at https://www.hei.com/investor-relations/news-and-events/news/news-details/2022/HEI-DECLARES-QUARTERLY-DIVIDEND-OF-0.35-PER-SHARE-80dd4c3e8/default.aspx.
[53] *See* CA SOP at 26.
[54] *See* September 13, 2021 RSOP at 18-19 and July 21, 2021 Reply at 4-5, responding to similar arguments.
[55] *See* July 21, 2021 Reply at 5-6.

Table 4: Rates of Return for Year Ended December 31, 2020

	Year Ended December 31, 2020					
	Ratemaking RORB			Ratemaking ROACE*		
	Hawaiian Electric	Hawai'i Electric Light	Maui Electric	Hawaiian Electric	Hawai'i Electric Light	Maui Electric
Utility returns	6.94%	7.09%	5.82%	9.01%	9.23%	7.11%
Commission allowed returns	7.37%	7.52%	7.43%	9.50%	9.50%	9.50%
Difference	(0.43%)	(0.43%)	(1.61%)	(0.49%)	(0.27%)	(2.39%)

* Hawaiian Electric's ROACE was revised to 8.97% and Hawai'i Electric Light's ROACE was revised to 9.42% for the earnings sharing determination in the decoupling filing on May 28, 2021. However, results are still below the allowed returns.

Table 5: Rates of Return for Year Ended December 31, 2021

	Year Ended December 31, 2021					
	Ratemaking RORB			Ratemaking ROACE*		
	Hawaiian Electric	Hawai'i Electric Light	Maui Electric	Hawaiian Electric**	Hawai'i Electric Light	Maui Electric
Utility returns	7.28%	5.96%	6.61%	9.38%	7.02%	8.22%
Commission allowed returns	7.37%	7.52%	7.43%	9.50%	9.50%	9.50%
Difference	(0.09%)	(1.56%)	(0.82%)	(0.12%)	(2.48%)	(1.28%)

* Hawai'i Electric Light's ROACE was revised to 6.94% for the earnings sharing determination in the 2022 Spring Revenue report approved by the Commission on May 25, 2021. However, results are still below the allowed returns.
** Hawaiian Electric's ROACE recalculated without the 2021 PIMs is 9.24%. PIMs for the 2021 evaluation period as reflected in Transmittal 22-01 (Spring Revenue Report), Exhibit 2, Attachment 2, Schedule E, filed on March 31, 2022 was $2,820,802 (RPS-A of $720,802 and Interconnection Approval of $2,100,000).

Table 6: Rates of Return for Last Twelve-Month Period Ended September 30, 2022

	Last Twelve-Month Period Ended September 30, 2022					
	Ratemaking RORB			Ratemaking ROACE*		
	Hawaiian Electric	Hawai'i Electric Light	Maui Electric	Hawaiian Electric*	Hawai'i Electric Light	Maui Electric
Utility returns	7.23%	5.96%	6.61%	9.58%	7.38%	8.48%
Commission allowed returns	7.37%	7.52%	7.43%	9.50%	9.50%	9.50%
Difference	(0.14%)	(1.56%)	(0.82%)	0.08%	(2.12%)	(1.02%)

* Hawaiian Electric's ROACE recalculated without the last twelve months PIMs is 9.44% and would be below the allowed return of 9.50%. PIMs for the 2021 evaluation period as reflected in Transmittal 22-01 (Spring Revenue Report), Exhibit 2, Attachment 2, Schedule E, filed on March 31, 2022 totaled $2,820,802 (RPS-A PIM of $720,802 and Interconnection Approval PIM of $2,100,000). Transmittal 22-03 (Fall Revenue Report), Exhibit 2, Attachment 2, Schedule E, filed on October 31, 2022 included the LMI Energy Efficiency PIM of $302,324.

As the footnotes to the above tables explain, for the year ended December 31, 2021 and the last twelve-month period ended September 30, 2022, the actual return on common equity for Hawaiian Electric was recalculated to remove the impact of the PIMs, which results in an even larger shortfall <u>below authorized levels</u> approved by the Commission. Regardless of how the Companies are doing financially or their returns, the Companies have already shown that the Deferred Costs were reasonably and prudently incurred and the time over which any potential recovery might be received is reasonable.

The Commission should reject the Consumer Advocate's contention of financial strength and rates of return as a justification to deny or reduce recovery of COVID-19 costs.

d. The Companies Continue to Incur COVID 19-Related Costs For Which No Separate Recovery Has Been Sought

Although the Consumer Advocate's arguments regarding the Companies' financial health are irrelevant and should be disregarded, since the Consumer Advocate has raised this issue, it is important to consider that the Companies continue to incur bad debt expenses and late payment fees that have been waived with customer installment plans that arose after the deferral period at issue in this docket, namely, March 202 through December 31, 2021, and have not sought deferral or special recovery of those expenses . This should also be considered in evaluating the reasonableness of the Companies' recovery request.

Given the current economic condition with higher fuel prices, inflation and the residual impact of COVID-19 on both commercial and residential customers with higher unemployment rates relative to pre-COVID, all of which impact a customer's ability to pay their bills, bad debt expense is higher than the amount in rates by approximately $3.3 million YTD September 2022, consolidated (*i.e.*, $2.5 million for Hawaiian Electric, $0.4 million for Hawaii Electric Light and $0.3 million for Maui Electric).

In addition, with the higher fuel prices, customer bills and the corresponding higher accounts receivable along with the Companies' effort in providing longer-term flexible payment arrangement, the volume of customers and amount on installment plans that arose after the deferral period have increased and the Companies do not have a mechanism to recover late payment fees waived on the arrears balance.

6. The Consumer Advocate Does Not Object to Recovery of Deferred Costs through the Z-Factor

In its SOP, the Consumer Advocate notably does not object to recovery of the Deferred Costs through the Z-Factor and does not dispute that the Deferred Costs are eligible for such recovery. Accordingly, recovery of the deferred costs should be allowed through the Z-Factor.

B. Companies' Responses to the Consumer Advocate's Recommendations

1. Recommendation No. 1

a. Consumer Advocate Recommendation

The Consumer Advocate's primary recommendation is to delay a decision on the Companies' proposed cost recovery until June 2023, and that the Companies be allowed to recover 50% of the COVID-19 regulatory asset balance as of May 31, 2023. If adopted, the Consumer Advocate believes that the need for a contra-regulatory asset would be mitigated, which would reduce the administrative and regulatory work that would be otherwise required.[56]

b. Companies' Reply

The Companies do not agree with the Consumer Advocate's recommendation. In the first instance, if the Companies are required to wait until June 2023 for a decision, the Companies would have waited more than a year and a half from the time that deferral treatment ended. Additionally, if a decision is not received until June 2023, the Companies would likely

[56] *See* CA SOP at 27-29.

include recovery of the costs in the 2023 fall revenue report filing, which is submitted in October of 2023, for inclusion in rates starting in January 2024. That is a whole year after the Companies' proposal, which would increase the unrecovered carrying costs that are calculated in Table 1 above.

Secondly, imposing a 50% reduction on the amount of actual costs that were prudently incurred is completely arbitrary and unsupported and is inconsistent with the Companies' reasonable expectation that they would be allowed to recover costs reasonably incurred in response to the COVID-19 pandemic emergency and the Commission's orders and inconsistent with the regulatory compact, as discussed above. Moreover, forcing the Companies to write off 50% of the requested recovery will reduce net income and the Company will have lower rates of return, which was not the intent of the deferral treatment for the COVID-19 related costs. Furthermore, as discussed above, the credit rating agencies saw the Commission's actions to allow deferral treatment as positive and supportive of the Companies as the pandemic was starting, and an arbitrary reduction of the requested Deferred Costs could be seen as a deteriorating relationship with the Commission with negative rating agency consequences. Additionally, in making this recommendation, the Consumer Advocate ignores the $15.7 million in Shareholder-Funded Customer Debt Relief and Assistance and Adjustments and Concessions that the Companies have already provided to customers.

2. Recommendation No. 2

a. Consumer Advocate Recommendation

A secondary recommendation is that the Companies be allowed cost recovery of up to 50% of the COVID-19 regulatory asset, reduced by any pandemic related collections that were previously uncollectible and all cost savings. A contra-regulatory asset would be required under this recommendation.[57]

b. Companies' Reply

The Companies do not agree with this recommendation from the Consumer Advocate for the reasons stated in Section II.B.1.b. above. The main point being that the proposed reduction of 50% is completely arbitrary and the Companies and its shareholders have already made significant concessions to share in the financial burden with customers. Any additional concessions would be akin to a financial penalty and would erode confidence in the regulatory relationship that the rating agencies relied on when giving the Companies an upgrade in 2021.

3. Recommendation No. 3

a. Consumer Advocate Recommendation

A tertiary recommendation is that the Companies only be allowed to recover the actual net write-offs of past due balances, less the bad debt expense amounts included in base rates for that period. No other expenses would be recovered under this recommendation.[58]

b. Companies' Reply

Of Consumer Advocate Recommendation Numbers 1 – 3, Recommendation Number 3 comes the closest to the Companies' requested recovery. Specifically, the Consumer Advocate's proposal would allow the Companies to recover the actual net write-offs of uncollectible customer accounts associated with bills for the period March 2020 through December 2021, less the bad debt expense amounts included in rates for this same period, and is identical to the Companies' proposal to recover net write-offs of uncollectible customer accounts.[59] However,

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[57] *See* CA SOP at 30.
[58] *See* CA SOP at 31.
[59] *See* Consumer Advocate response to HECO-CA-IR-1b.

the Consumer Advocate's proposal would exclude cost recovery for any other expenses such as financing costs, cleaning, software and user licenses, sequestration costs, and advertising,[60] but would also exclude any application of cost savings,[61] thereby narrowing the difference between the Consumer Advocate's proposal and the Companies' proposed recovery. The exclusion of recovery of the other COVID-related expenses would fall short of offsetting the exclusion of the COVID cost savings.

4. Recommendation No. 4

a. Consumer Advocate Recommendation

If none of the above are adopted, the Consumer Advocate recommends that the Companies be required to improve their efforts to identify cost savings and that some of the financing costs should be reduced as described in Section II.G.1-2. of the SOP.[62]

b. Companies' Reply

i. The Companies' Assessment of Savings Is Incomplete

The Companies do not agree with the Consumer Advocate's contention that the Companies' assessment of savings is incomplete. The Consumer Advocate supports this position by pointing to the fact that the Companies' identified cost savings do not include travel savings from consultants and vendor contracts by way of the Companies' response to CA-SIR-4. The Consumer Advocate contends that "the Companies could have reviewed a sampling of contracts to determine an estimate of travel for consultants and vendors that did not occur or

[60] *See id.*
[61] In its SOP, the Consumer Advocate stated that "the net amount allowed for recovery at this time would be $10,554,000, $2,255,000, and $2,137,000 for HECO, HELCO, and MECO, respectively," which "are derived from CA-101 Line 3 less Line 15." CA SOP at 31 and footnote 30. Exhibit CA-101 is the Companies' COVID-19 quarterly report, Attachment 1, at 4, filed on November 1, 2022, subject to the terms of Protective Order No. 37543, in Docket No. 2020-0209, which was subsequently re-filed on a non-confidential basis on November 7, 2022.
[62] *See* CA SOP at 32.

were reduced because of travel restrictions."[63] This approach in quantifying savings is one-sided as it focuses on recorded costs, or avoidance thereof, but does not address how the recorded costs compare to amounts being recovered in base rates. As described in the response to CA-IR-11, the Companies' method for quantifying savings compared actual incurred costs for travel against amounts recovered in rates. The Consumer Advocate's position also completely ignores the Companies' response to the information request in which it stated that travel for consultants and vendors are usually embedded into contracts rates and that rate case estimates for consultants and vendors do not typically drill down to the level of detail that would specify the travel subset of the total contract expense.[64] The Companies' focus for identifying savings was on practicality and reasonability and not on conceptual ideas of savings that could not be substantiated in test year estimates, and ultimately what is being recovered in rates.

The Consumer Advocate also states that "if these [travel] savings are not recorded, these costs will be paid for by ratepayers even if travel costs were not incurred."[65] The Companies disagree with this position. With the multiple cost containment/savings efforts underway that coincided with the timing of the pandemic, cost savings not associated with COVID-19 would be enjoyed by customers by means of enabling the Companies to deliver on their commitments of a forgone rate case, ERP/EAM and Management Audit savings, and the annual customer dividend prescribed under the new PBR framework. Furthermore, if vendor travel savings were not hypothetically passed on to customers in this docket, nor by any other means including the ERP/EAM and Management Audit savings commitment, as well as the PBR customer dividend, customers would be protected by the earnings sharing mechanism deadband which would give

[63] CA SOP at 33.
[64] *See* the Companies' response to CA-SIR-4a.
[65] CA SOP at 33.

back earnings windfalls to customers according to the provisions of the mechanism.

The Consumer Advocate further supports its position by declaring that the Companies realized $864,000 in savings related to reduced training costs during the pandemic period and recommends that the savings be used to offset the deferred COVID-19 related costs. The Companies disagree with this recommendation. The Consumer Advocate failed to question the driver for the lower spending and incorrectly characterized it as occurring due to "changes to operations that resulted from the pandemic."[66] In their response to PUC-HECO-IR-02, the Companies explained that the lower spending for training related activities from April 2020 to December 2021 was a result of Company cost containment efforts in response to a forgone general rate increase in the Hawaiian Electric 2020 test year rate case[67] and to deliver on savings commitments from the ERP/EAM proceeding and the Management Audit.[68] The Companies further explained that the lower spending was a product of prioritization efforts on discretionary activities and that the lower spending continues beyond the pandemic period and into 2022. This goes back to the Companies' point that cost containment/savings efforts were already underway, and for multiple different needs, going into the pandemic. Due to this and because savings in general is a finite amount that can only satisfy so many needs, the Companies reiterate that their approach for identifying savings in this proceeding for items that could be specifically and exclusively attributed to the pandemic itself is practical. Since the lower training spending was a result of prioritization efforts to bear a forgone rate case, and because the Companies still had the

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[66] CA SOP at 34.

[67] *See* the Parties' Joint Stipulated Settlement Letter, at 1-2, Exhibit 1, at 4, filed on May 27, 2020 in Docket No. 2019-0085 which the Commission approved, subject to the Commission's clarifications regarding the treatment of the Management Audit savings commitment in the Performance-Based Regulation proceeding in Decision and Order No. 37387.

[68] *See* Order No. 37557 issued on January 15, 2021 in Docket No. 2018-0088, at 16. *See also* Exhibit 2 to the *Hawaiian Electric Companies' Motion for Partial Clarification and/or Reconsideration of D&O 37507* filed on January 4, 2021 in Docket No. 2018-0088.

ability to incur training costs, albeit virtually in many instances, it is the Companies' position that the lower training spending should not be included as savings to offset deferred COVID-19 costs in this Application.

As additional validation for its position, the Consumer Advocate also states that "there appear to be further savings that should have been captured by the Companies that would only have occurred because of changes to operations that resulted from the pandemic."[69] It explains that the Companies allowed many of their employees to telework, and as a result "there could be cost savings from lower electricity costs, lower office lease costs, lower fleet costs (since less in-person customer visits during lock down should have occurred), and lower office supplies expense…"[70] However, this statement is without merit. The Consumer Advocate offers no support for its argument other than stating that "these types of cost savings have not been identified nor provided by the Companies."[71] This statement ignores the Companies' response to information requests on this subject matter. In CA-IR-11, subpart b.1., which asked about savings associated with remote work, the Companies explained that savings were not experienced. Specifically the Companies stated:

> The Companies did not experience savings relative to test year levels for the cost examples associated with employees working remotely (*i.e.*, at home). Some of the larger expense categories related to employees working on site include rent, utilities and facilities operation and maintenance expenses. Generally, leases for office space are multi-year contracts based on leased space. Cost obligations on these contracts still exist despite usage of the space. During the pandemic, 24/7 operations were maintained for some groups, other groups were still required to report on site daily, and there was also office personnel needing to report on site in order to provide support functions. As a result, the Companies continued to incur costs associated with rent and the general operation, and maintenance of facilities during the pandemic period.

[69] CA SOP at 34.
[70] CA SOP at 35.
[71] *Ibid.*

The Companies further provided a comparison of recorded costs over the pandemic period relative to amounts in rates for the applicable Federal Energy Regulatory Commission ("FERC") accounts to demonstrate that savings were not realized.[72] With respect to fleet costs, the Companies also explained in their response to CA-IR-11, subpart b.3. that efforts were already underway at the beginning of the pandemic to address recommendations in the Management Audit for vehicle and fleet related matters. Hence savings for these items were not considered as offsets for COVID-19 costs and are already being passed on to customers through the management audit savings commitment in the ARA mechanism. Therefore, the Consumer Advocate's contention that further savings should have been captured is misguided and incorrect.

ii. Cost Recovery of Financing Costs Should Be Reduced

The financing costs should not be reduced simply because there were no draws taken on the credit facility that was a necessary response in the unprecedented pandemic that was spreading across the globe. See Section II.A.1.b. above for further discussion.

5. Recommendation No. 5

a. Consumer Advocate Recommendation

The Consumer Advocate acknowledges and agrees that there should be no expectation of additional COVID-19 related costs to be added to the regulatory asset. Based on the Consumer Advocate's primary recommendation to defer any decision on cost recovery until June 2023, however, the Consumer Advocate contends that the Companies should continue to report on the COVID-19 regulatory asset balance until June 2023 to allow the Commission and Consumer Advocate to monitor the changes to the balance from pandemic related collections that were previously deemed uncollectible. The Consumer Advocate also urges the Commission to adopt a

[72] *See* the Companies' response to CA-IR-11, Attachment 1.

policy requiring the continued reporting of disconnections due to non-payment of bills and past due amounts. Consistent with the growing awareness across the country with respect to vulnerable customers and the need for more attention and efforts towards equity, continued reporting on these areas will be helpful to assess the impacts on Hawaii's vulnerable customers.[73]

b. Companies' Reply

As stated in the Application, the Companies are requesting reporting on the COVID-19 deferred cost regulatory asset as part of the spring revenue reports, and ceasing further reporting on the COVID-19 deferred costs, which has been filed quarterly in Docket No. 2020-0209, for the following reasons:

- The Companies' deferral period ended on December 31, 2021;
- There has been no additional COVID-19 related costs associated with their deferral period added to the regulatory asset; and
- The Companies will report on the COVID-19 deferred cost regulatory asset balances in the spring revenue report.[74]

Accordingly, the Companies will continue to file the COVID-19 Quarterly Report in Docket No. 2020-0209 until after the Companies' spring revenue report (or fall revenue report if applicable) has incorporated recovery of the COVID-19 related costs. If the Commission approves the Companies' Application, the Companies will start including the following in the spring revenue report, which will be filed on or before March 31, 2023:

1) A detail of activities to support the amounts requested for recovery through the Z-Factor; and
2) COVID-19 deferred cost regulatory asset balances until the balances are fully amortized or become zero.

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[73] *See* CA SOP at 40.
[74] *See* Application at 8 and 31.

The Companies clarifies that in the Application they are not requesting terminating the quarterly customer reporting requirements set forth in Order No. 38227 issued in Docket No. 2020-0209.[75] The Companies will continue to file a Quarterly Customer Report as required until otherwise ordered by the Commission.

III. CONCLUSION

For the reasons set forth above, as well as those set forth in the Application, responses to information requests, and the record herein, the Companies respectfully request that the Commission issue a decision and order approving their request, as described in Section II of the Application, if possible by December 30, 2022, or the latest by January 16, 2023.

DATED: Honolulu, Hawai'i, November 30, 2022.

By /s/ Eric H. Kunisaki

Eric H. Kunisaki
Attorney for

HAWAIIAN ELECTRIC COMPANY, INC.
HAWAI'I ELECTRIC LIGHT COMPANY, INC.
MAUI ELECTRIC COMPANY, LIMITED

[75] *See* Order No. 38227 issued on February 11, 2022 in Docket No. 2020-0209, at 9-10; Ordering Para. 2 at 11.

<u>The Bill Impact to Customers for the Second and Third Years of the Proposed Cost Recovery Period</u>

Due to the extraordinary nature of the COVID-19 pandemic, the impact to actual write-offs was expected to extend beyond 2020 depending on the duration of the pandemic and inherent lead times in the Companies' collections efforts.[1] Given the volume of customers negatively impacted by the pandemic, the Companies began their collections efforts in late 2021. The Companies continued to work with customers who were in arrears to seek available assistance and entered them into longer-term payment plans. Albeit, the Companies' collections efforts have increased, the number of customers and their respective write-off amounts have increased and are expected to continue to increase from the amount included in the Companies' recovery request for the initial year.

In its SOP, the Consumer Advocate stated that the bill impact will probably be much higher than the Companies' estimate in the initial year of the proposed three-year recovery.[2] As stated in the Companies' response to PUC-HECO-IR-03, subparts b. and c., based on the actual net write-off amounts for year-to-date ("YTD") September 2022, the bill impact of the Companies' request to recover the COVID-19 related costs for the second and third year recovery periods (*i.e.*, the June 2024 through May 2025 period and the June 2025 through May 2026 period, respectively) in the 2024 and 2025 spring revenue reports is estimated to be higher than the bill impact in the initial year of the Companies' cost recovery request.

One of the main drivers for the estimated higher bill impact in the second and third years is that the recovery amount in the first year is based on net write-offs from June 2020 through

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[1] *See* Application filed on April 22, 2020 in Docket 2020-0069, at 12.
[2] Consumer Advocate statement of position ("SOP") at 18.

December 31, 2021. Given that there was a moratorium on disconnections from March 2020 through May 31, 2021, very few accounts were disconnected through December 31, 2021 such that the net write-off amounts are lower than years two and three of the recovery request period. Although the moratorium ended on May 31, 2021, the Companies executed on a post-moratorium plan that delayed the start of the collections process to give customers time to seek financial assistance and to also take advantage of long-term payment plans to address arrears balances and avoid potential disconnection of service. Rather than rushing back into pre-pandemic collections processes, the Companies' first step post-moratorium included informing customers of the end of the moratorium and explaining the Companies' plan to automatically place past due customers on a 12-month payment plan from July through August 2021. This delay in re-starting the collection process was to give access to all past due residential and small commercial (rate schedule G) customers to a 12-month payment plan. Thereafter, from September 2021 through January 2022, the Companies embarked on a transitional manual collections effort to address past due accounts with the oldest and largest balances who did not maintain the payment plans. If the Companies had not delayed the start of collections after the end of the moratorium, net write-offs through December 31, 2021 would most likely have been higher, shifting bill impact to the first year. However, the Companies chose to give customers time to address their past due balances mainly because the Companies recognized that even though the moratorium was over, COVID-19 restrictions on travel, gatherings and businesses, were still in place. In June 2021, the economic recovery for the State was still evolving, as were many customer's ability to earn levels of income similar to pre-pandemic times. The Companies based this conclusion on the State of Hawai'i's reported unemployment rate, which is still above pre-pandemic levels, although improving in the last few months of 2022.

In 2022, the Companies eased customers back into automated reminder and disconnection notices, with options to enter into new payment plans. The scope of customers addressed in this process continues to be adjusted periodically to ensure the appropriate level of Company resources are available to support customers as they work to resolve past due balances. This delay in re-starting the collections process is a courtesy to give customers time to seek financial assistance, enroll in payment plans and to also adjust to the post-COVID transition as restrictions for gatherings and businesses were lifted. Through this process, the Companies intend to provide time for as many customers as possible to pay down their arrears and remain current on their electric bills to avoid disconnections and write-offs. One result of these delays, however, is that net write-offs of pandemic related bills will occur later than it would if the Companies had not decided to delay collections. The Companies are confident that this decision is in the best interest of all customers, as it not only allows many customers a path to financial stability, it also potentially reduces the total amount recovered from all ratepayers, even if it may result in higher bill impacts in the second and third recovery years.

Based on data available on arrears balances as of September 2022, the estimated second year recovery request as shown in the Companies' response to PUC-HECO-IR-03, subpart b, is estimated at $6,815,000 ($4,763,000 for Hawaiian Electric, $1,237,000 for Hawai'i Electric Light and $815,000 for Maui Electric) and $4,340,000 ($2,656,000 for Hawaiian Electric, $801,000 for Hawai'i Electric Light, $883,000 for Maui Electric) for the third year as noted in subpart c. of the Companies' response to PUC-HECO-IR-03.[3] The estimated amounts for the second and third recovery years do not include any collection on arrears balances beyond September 2022 that may be collected on the amounts recorded in the COVID-19 regulatory

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[3] These estimated amounts exclude revenue taxes.

asset that was originally deemed uncollectible. The Companies will record and track any payments received on the remaining arrears balances in a contra-regulatory asset account to reduce the future year recovery request amounts.

CONFIDENTIALITY JUSTIFICATION TABLE

Pursuant to Protective Order No. 38486 issued on July 11, 2022, the Hawaiian Electric Companies[1] hereby identify redacted confidential and/or proprietary information that is being submitted as "confidential information." This table (1) identifies, in reasonable detail, the information's source, character, and location; (2) states clearly the basis for the claim of confidentiality; and (3) describes, with particularity, the cognizable harm to the producing party or participant from any misuse or unpermitted disclosure of the information.

Reference	Identification of Item	Basis of Confidentiality	Harm
Reply, pages 17-18, Table 2	The estimated pension tracking mechanism net refund amounts for the periods of June 2023-May 2024, June 2024-May 2025, and June 2025-May 2026, calculated using the projected retirement benefit costs provided by Willis Towers Watson.	The confidential financial information is restricted from disclosure by the rules and guidelines of the U.S. Securities and Exchange Commission ("SEC") and the New York Stock Exchange, as its premature disclosure could trigger considerable additional burdens for the Companies and significant market disruption and instability arising from investors' alleged reliance on and/or failure to receive such information, and thus falls within the frustration of legitimate government function exception of the Uniform Information Practices Act ("UIPA").[2]	Public disclosure of the confidential financial information via non-confidential filing with the Commission could trigger additional requirements of disclosure under the rules and guidelines of the SEC and/or the New York Stock Exchange, creating considerable additional burdens for the Companies and instability and disruption to the market, which would expose the Companies to claims of liability arising from investors' alleged reliance on and/or failure to receive such financial information.

[1] The "Hawaiian Electric Companies" or "Companies" refers to Hawaiian Electric Company, Inc., Hawai'i Electric Light Company, Inc., and Maui Electric Company, Limited.
[2] Haw. Rev. Stat. § 92F-13(3).

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAIʻI

In the Matter of the Application of HAWAIIAN ELECTRIC COMPANY, INC. HAWAIʻI ELECTRIC LIGHT COMPANY, INC. and MAUI ELECTRIC COMPANY, LIMITED For Approval to Recover Deferred Costs Associated with the COVID-19 Pandemic Emergency.	DOCKET NO. 2022-0118

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing documents, together with this Certificate of Service, was duly served on the following party, by electronic mail service as set forth below:

Dean Nishina
Executive Director
Division of Consumer Advocacy
Department of Commerce and Consumer Affairs
dnishina@dcca.hawaii.gov
consumeradvocate@dcca.hawaii.gov

DATED: Honolulu, Hawaiʻi, November 30, 2022.

/s/ Ayako Yamamoto
Ayako Yamamoto
HAWAIIAN ELECTRIC COMPANY, INC.